



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 27, 2010

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Hiawatha Water Department, Hiawatha, Iowa.

The Water Department's receipts totaled \$1,490,792 for the year ended June 30, 2009, a less than one percent increase over 2008. The receipts included \$758,131 in charges for service, \$616,338 in sewer and storm water fees collected for the City and \$9,276 in interest on investments.

Disbursements for the year totaled \$1,484,364, a three percent decrease from the prior year, and included \$928,490 for operations and improvements and \$555,874 for sewer and storm water fees remitted to the City of Hiawatha.

A copy of the audit report is available for review in the Water Department's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index.html>.

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HIAWATHA WATER DEPARTMENT
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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Hiawatha Water Department

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2009)		
Sandra Brewer	Chairperson	Jan 2011
Charles Fridal	Trustee	Jan 2009
Troy Anderson (Appointed)	Trustee	Jan 2010
Bev Daws (Appointed)	Trustee	Jan 2012
Richard Larson	Trustee	Jan 2014
(After January 2009)		
Troy Anderson	Chairperson	Jan 2010
Sandra Brewer	Trustee	Jan 2011
Bev Daws (Appointed)	Trustee	Jan 2012
Richard Larson	Trustee	(Resigned)
Gary Casady (Appointed)	Trustee	Jan 2014
Charles Fridal	Trustee	Jan 2015
Carl Ransford	Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite

Hiawatha Water Department



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Independent Auditor's Report

To the Board of Trustees of the
Hiawatha Water Department:

We have audited the accompanying financial statement of the Hiawatha Water Department, Hiawatha, Iowa, as of and for the year ended June 30, 2009. This financial statement is the responsibility of Water Department officials. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Hiawatha Water Department is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Hiawatha that is attributable to the transactions of the Water Department.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Hiawatha Water Department as of June 30, 2009, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2009 on our consideration of the Hiawatha Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 9 and pages 18 through 20 are not required parts of the financial statement, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 11, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hiawatha Water Department provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the Water Department's financial statement, which follows.

2009 FINANCIAL HIGHLIGHTS

- The Water Department's total receipts increased less than 1 percent, or approximately \$2,500, from fiscal 2008 to fiscal 2009. Water rates increased for the current year, but interest on investments decreased from a year ago because of much lower interest rates.
- The Water Department's total disbursements and transfers increased 2 percent, or approximately \$39,000, from fiscal 2008 to fiscal 2009 due to capital project activity during fiscal year 2009 related to a well project.
- The Water Department's total cash basis net assets decreased 29 percent, or approximately \$166,000, from June 30, 2008 to June 30, 2009.

USING THIS ANNUAL REPORT

The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Water Department's financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Hiawatha Water Department's receipts and disbursements and whether the Water Department's cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Required Supplementary Information further explains and supports the financial statement with a comparison of the Water Department's budget for the year.

Other Supplementary Information provides detailed information about the individual Enterprise Funds.

BASIS OF ACCOUNTING

The Hiawatha Water Department maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Water Department is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE HIAWATHA WATER DEPARTMENT

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the Hiawatha Water Department and the disbursements paid by the Water Department, both operating and non-operating. The statement also presents a fiscal snapshot of the Water Department's cash balance at year end. Over time, readers of the financial statement are able to determine the Hiawatha Water Department's financial position by analyzing the increase and decrease in cash basis net assets.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2009 and June 30, 2008 is presented below:

	Changes in Cash Basis Net Assets	
	Year ended June 30,	
	2009	2008
Receipts:		
Interest on investments	\$ 9,276	\$ 32,313
Charges for service	758,131	762,717
Sewer and storm water fees collected for City	616,338	603,412
Miscellaneous	107,047	89,836
Total receipts	<u>1,490,792</u>	<u>1,488,278</u>
Disbursements:		
Plant operation and maintenance	170,125	157,886
Distribution operation and maintenance	164,957	190,516
Administration	350,344	347,455
Capital outlay	243,064	237,547
Sewer and storm water fees remitted to City	555,874	602,808
Total disbursements	<u>1,484,364</u>	<u>1,536,212</u>
Change in cash basis net assets before transfers	6,428	(47,934)
Transfers to the City of Hiawatha	<u>(172,715)</u>	<u>(81,863)</u>
Change in cash basis net assets	(166,287)	(129,797)
Cash basis net assets beginning of year	<u>569,351</u>	<u>699,148</u>
Cash basis net assets end of year	<u>\$ 403,064</u>	<u>569,351</u>

The Water Department's net assets are available for use in the routine operations for the plant, distribution and administrative areas of the Water Department and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Hiawatha Water Department to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution.

BUDGETARY HIGHLIGHTS

The Hiawatha Water Department did not amend its budget during fiscal year ended June 30, 2009.

The Water Department's miscellaneous receipts were \$25,167 more than budgeted. The increase in miscellaneous receipts is due to more collections of meter deposits, an increase in meter installations, an additional payment of \$7,416 from FEMA for a water main burst and insurance for damage to a water well.

The Water Department's receipts for charges for service and use of money and property were \$43,529 and \$7,724, respectively, less than budgeted. The decrease in charges for service is due to fewer water sales during the year, primarily due to a wetter fall and spring with less irrigation use. The decrease in use of money was primarily due to the Water Department not investing funds in as many certificates of deposit in the current year compared to the prior year. Also, interest rates have decreased dramatically from a year ago.

The Water Department's disbursements were \$129,301 less than budgeted for the year. This was primarily due to the Water Department's normal operating and maintenance disbursements not being as high as originally anticipated. The repairs needed for the wells and water mains were not as costly as they had been in the past. Therefore, the Water Department had budgeted for greater expenses than what was necessary.

DEBT ADMINISTRATION

At June 30, 2009 and June 30, 2008, the Hiawatha Water Department did not have any debt outstanding. However, each year the Water Department transfers to the City of Hiawatha an amount approximating 7% of the principal and interest coming due on the City's general obligation bonds issued December 1, 1998 and general obligation notes issued April 1, 2008. This amount represents the Water Department's pro rata share of bond/note proceeds used to finance improvements and extensions to the utility.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Hiawatha Water Department raised the water rate charges as of July 2008 to improve its financial position for the next fiscal year and to pay for an additional water storage unit used at wells #4 and #9 on 10th Avenue and to fund the costs of a new public works facility. In addition, the City of Hiawatha annexed 325 acres to the northwest which will take a large amount of pipe, engineer fees, etc., to provide water and sewer to residents.

Current economic conditions beyond the Hiawatha Water Department's Trustees control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- the need to constantly maintain facilities, wells, vehicles and machinery.
- the need to comply with federal and state regulations for the production of water and well-head protection.
- the need to maintain up-to-date technology at a reasonable cost.
- the fluctuation of the cost of the chemicals and energy used to produce quality water.

CONTACTING THE WATER DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Hiawatha Water Department's finances and to show the Water Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hiawatha Water Department, 101 Emmons Street, PO Box 485, Hiawatha, Iowa 52233.

Hiawatha Water Department

Financial Statement

Hiawatha Water Department

Hiawatha Water Department
Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Net Assets
As of and for the year ended June 30, 2009

Operating receipts:	
Charges for service	\$ 758,131
Miscellaneous	107,047
Total operating receipts	<u>865,178</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	170,125
Distribution operation and maintenance	164,957
Administration	350,344
Total operating disbursements	<u>685,426</u>
Excess of operating receipts over operating disbursements	<u>179,752</u>
Non-operating receipts (disbursements):	
Interest on investments	9,276
Sewer and storm water fees collected for the City	616,338
Capital outlay	(243,064)
Sewer and storm water fees remitted to the City	(555,874)
Net non-operating receipts (disbursements)	<u>(173,324)</u>
Excess of receipts over disbursements	6,428
Transfers to the City of Hiawatha	<u>(172,715)</u>
Change in cash basis net assets	(166,287)
Cash basis net assets beginning of year	<u>569,351</u>
Cash basis net assets end of year	<u>\$ 403,064</u>
Cash Basis Net Assets	
Restricted for:	
Sewer and storm water fees	\$ 75,046
Customer water deposits	68,101
Total restricted net assets	<u>143,147</u>
Unrestricted	<u>259,917</u>
Total cash basis net assets	<u>\$ 403,064</u>

See notes to financial statement.

Hiawatha Water Department

Notes to Financial Statement

June 30, 2009

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Hiawatha Water Department is a component unit of the City of Hiawatha, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Water Department is governed by a five-member board of trustees appointed by the Mayor and approved by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Water Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its receipts, disbursements and balances. The funds are classified as Enterprise Funds in the financial statement. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The Hiawatha Water Department maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Water Department is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Assets and Net Assets

Funds set aside for sewer and storm water fees and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The Water Department's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Water Department is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Water Department had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$330,018 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The Water Department's investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Pension and Retirement Benefits

The Water Department contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the Water Department is required to contribute 6.35% of covered salary. Contribution requirements are established by state statute. The Water Department's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$28,529, \$25,167 and \$18,736, respectively, equal to the required contributions for each year.

(4) Compensated Absences

Water Department employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Water Department until used or paid. The Water Department's approximate liability for earned compensated absences payable to employees at June 30, 2009 is \$7,600. This liability has been computed based on rates of pay in effect at June 30, 2009.

(5) Risk Management

The Water Department is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Transfers

The detail of transfers to the City of Hiawatha for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
City of Hiawatha:	Enterprise:	
Debt Service	Water Operating	\$ 41,841
Capital Projects	Water Operating	32,214
	Capital Improvements	81,210
Special Revenue:		
Equipment Reserve	Water Operating	3,250
Enterprise:		
Sewer Revenue	Water Operating	14,200
Total		<u>\$ 172,715</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Construction Contracts/Commitments

During the year ended June 30, 2005, the Water Department entered into a project in conjunction with the City of Hiawatha to build a public works building. The total amount of the project is \$1,636,260 and the portion of costs to be paid by the Water Department is \$409,065. A payment of \$32,214 was made during the year ended June 30, 2009. Annual payments of \$32,214 are expected to be made for the next 11 years.

(8) Deficit Balance

The Enterprise, Capital Improvement Fund had a deficit balance of \$123,892 at June 30, 2009. The deficit balance was a result of disbursements for capital improvements. The deficit will be eliminated by amending the fiscal year 2010 budget to eliminate the negative fund balance using water revenue funds.

Required Supplementary Information

Hiawatha Water Department

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)

Year ended June 30, 2009

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Use of money and property	\$ 9,276	-	9,276
Charges for service	1,374,469	616,338	758,131
Miscellaneous	107,047	-	107,047
Total receipts	1,490,792	616,338	874,454
Disbursements:			
Business type activities	1,484,364	555,874	928,490
Excess (deficiency) of receipts over (under) disbursements	6,428	60,464	(54,036)
Other financing uses, net	(172,715)	-	(172,715)
Change in cash basis net assets	(166,287)	60,464	(226,751)
Cash basis net assets beginning of year	569,351	14,582	554,769
Cash basis net assets end of year	\$ 403,064	75,046	328,018

See accompanying independent auditor's report.

Budgeted Amounts	Final to Net
Original/Final	Variance
17,000	(7,724)
801,660	(43,529)
81,880	25,167
900,540	(26,086)
1,057,791	129,301
(157,251)	103,215
(172,715)	-
(329,966)	103,215
554,769	-
224,803	103,215

Hiawatha Water Department

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

The Hiawatha Water Department prepares a budget on the cash basis of accounting for all funds except sewer and storm water fees collected for and remitted to the City and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Water Department, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Water Department's disbursements are budgeted in the business type activities function. The Water Department's budget is reflected in the original and final budgeted amount. There were no budget amendments for the Water Department during the year ended June 30, 2009.

During the year ended June 30, 2009, disbursements did not exceed the amount budgeted.

Other Supplementary Information

Hiawatha Water Department
Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets

Enterprise Funds

As of and for the year ended June 30, 2009

	Water Operating	Meter Deposit
Operating receipts:		
Charges for service:		
Sale of water	\$ 724,469	-
Penalties	9,684	-
Tower contract	21,658	-
Midway	2,320	-
	758,131	-
Miscellaneous:		
Sales tax	48,912	-
Refunds and reimbursements	9,658	-
Customer deposits	-	20,980
Miscellaneous	27,497	-
	86,067	20,980
Total operating receipts	844,198	20,980
Operating disbursements:		
Business type activities:		
Plant operation and maintenance:		
Personal services	144,249	-
Contractual services	25,876	-
	170,125	-
Distribution operation and maintenance:		
Contractual services	90,101	-
Commodities	74,856	-
	164,957	-
Administration:		
Personal services	225,199	-
Contractual services	85,209	7,140
Commodities	32,796	-
	343,204	7,140
Total operating disbursements	678,286	7,140
Excess (deficiency) of operating receipts over (under) operating disbursements	165,912	13,840

City Waterworks	Capital Improvements	Total
-	-	724,469
-	-	9,684
-	-	21,658
-	-	2,320
-	-	758,131
-	-	48,912
-	-	9,658
-	-	20,980
-	-	27,497
-	-	107,047
-	-	865,178
-	-	144,249
-	-	25,876
-	-	170,125
-	-	90,101
-	-	74,856
-	-	164,957
-	-	225,199
-	-	92,349
-	-	32,796
-	-	350,344
-	-	685,426
-	-	179,752

Hiawatha Water Department
Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets

Enterprise Funds

As of and for the year ended June 30, 2009

	Water Operating	Meter Deposit
Non-operating receipts (disbursements):		
Interest on investments	9,276	-
Sewer and storm water fees collected for the City	-	-
Capital outlay	(70,382)	-
Sewer and storm water fees remitted to the City	-	-
Total non-operating receipts (disbursements)	<u>(61,106)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>104,806</u>	<u>13,840</u>
Transfers in (out):		
Enterprise:		
Capital Improvements	(130,000)	-
Water Operating	63,000	(63,000)
To the City of Hiawatha:		
Special Revenue:		
Equipment Reserve	(3,250)	-
Debt Service	(41,841)	-
Capital Projects	(32,214)	-
Enterprise:		
Sewer Revenue	(14,200)	-
Total transfers in (out)	<u>(158,505)</u>	<u>(63,000)</u>
Change in cash basis net assets	(53,699)	(49,160)
Cash basis net assets beginning of year	<u>437,508</u>	<u>117,261</u>
Cash basis net assets end of year	<u>\$ 383,809</u>	<u>68,101</u>
Cash Basis Fund Balances:		
Reserved for:		
Sewer and storm water fees	\$ -	-
Customer water deposits	-	68,101
Unreserved	<u>383,809</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 383,809</u>	<u>68,101</u>

See accompanying independent auditor's report.

City Waterworks	Capital Improvements	Total
-	-	9,276
616,338	-	616,338
-	(172,682)	(243,064)
(555,874)	-	(555,874)
60,464	(172,682)	(173,324)
60,464	(172,682)	6,428
-	-	(130,000)
-	130,000	130,000
-	-	(3,250)
-	-	(41,841)
-	(81,210)	(113,424)
-	-	(14,200)
-	48,790	(172,715)
60,464	(123,892)	(166,287)
14,582	-	569,351
75,046	(123,892)	403,064
75,046	-	75,046
-	-	68,101
-	(123,892)	259,917
75,046	(123,892)	403,064

Hiawatha Water Department



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of a Financial Statement Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of the
Hiawatha Water Department:

We have audited the accompanying financial statement of the Hiawatha Water Department, Hiawatha, Iowa, as of and for the year ended June 30, 2009, and have issued our report thereon dated November 11, 2009. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hiawatha Water Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Water Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hiawatha Water Department's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the Water Department's financial statement that is more than inconsequential will not be prevented or detected by Water Department's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Hiawatha Water Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiencies described above are considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hiawatha Water Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of non-compliance or other matter described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Water Department's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Water Department. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Hiawatha Water Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Water Department's responses, we did not audit the Water Department's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Hiawatha Water Department and other parties to whom the Hiawatha Water Department may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Hiawatha Water Department during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 11, 2009

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2009

Findings Related to the Financial Statement:

SIGNIFICANT DEFICIENCIES:

- 1) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One individual has control over one or more of the following areas:
 - (a) Cash – cash receipts, handling and recording cash.
 - (b) Receipts – a listing of checks received is not prepared by the mail opener.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Water Department should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel and utility officials. In addition, an initial listing of receipts should be prepared and compared to the deposit by an independent person.

Response – We will try to segregate the receipting and recording of cash. We will also have the mail opener prepare a list of all receipts received in the mail and the night box and have our water superintendent or water system supervisor review the list to ensure receipts were recorded and deposited properly.

Conclusion – Response accepted.

- 2) Construction Contracts – In October 2007, the Water Department contracted for a well project. The total contract, including change orders, totaled \$212,599. During the year ended June 30, 2009, the Water Department made payments totaling \$26,459 in excess of the contract amount.

Recommendation – The Water Department should approve a change order prior to exceeding a contract amount.

Response – All projects will require change orders to ensure the contract amount is not exceeded in the future.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2009

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – The budget certified by the City of Hiawatha includes amounts for the Hiawatha Water Department. Disbursements during the year ended June 30, 2009 did not exceed the amount budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Water Department money for travel expenses of spouses of Water Department officials or employees were noted.
- (4) Business Transactions – No business transactions between the Water Department and Water Department officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Water Department officials and employees is carried by the City of Hiawatha in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Water Department’s investment policy were noted.
- (8) Financial Condition – The Enterprise, Capital Improvements Fund had a deficit balance at June 30, 2009 of \$123,892.

Recommendation – The Water Department should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – We will amend the fiscal year ending June 30, 2010 budget to correct the negative fund balance using water revenue funds.

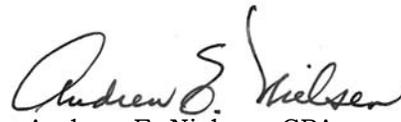
Conclusion – Response accepted.

Hiawatha Water Department

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Michael R. Field, Staff Auditor
Daryl L. Hart, Assistant Auditor


Andrew E. Nielsen, CPA
Deputy Auditor of State